

Socialism: A Property or Knowledge Problem?

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In a series of recent articles in *The Review of Austrian Economics*, Joseph Salerno began to de-homogenize the often conflated economic and social theories of Ludwig von Mises and Friedrich A. Hayek. In particular, he has shown that their views on socialism are distinctly different, and he has argued in effect that Mises's original argument in the so-called socialist calculation debate was correct all along and was also the final word, whereas Hayek's distinct contribution to the debate was fallacious from the outset, and merely added confusion. The following note will provide additional support to Salerno's thesis.

Mises's well-known calculation argument states this: If there is no private property in land and other production factors, then there can also be no market prices for them. Hence, economic calculation, i.e., the comparison, in light of current prices, of anticipated revenue, and expected cost expressed in terms of a common medium of exchange—money—(thus permitting *cardinal* accounting operations), is literally impossible. Therefore, socialism's fatal error is the absence of private property in land and production factors, and, by implication, the absence of economic calculation.

For Hayek, socialism's problem is not a lack of property but a lack of knowledge. His distinctly own thesis is altogether different from Mises's.¹ For Hayek, the ultimate flaw of socialism is the fact that knowledge, in particular "the knowledge of the

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¹See in particular the widely acclaimed 1945 article on "The Use of Knowledge in Society," reprinted in F. A. Hayek, *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948).

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particular circumstances of time and place," exists only in a widely dispersed form as the personal possession of various individuals; hence, it is *practically* impossible to assemble and process all the actually existing knowledge within the mind of a single socialist central planner. Hayek's solution is not private property, but the decentralization of the use of knowledge.

Yet this is surely an absurd thesis. First, if the centralized use of knowledge is the problem, then it is difficult to explain why there are families, clubs, and firms, or why they do not face the very same problems as socialism. Families and firms also involve central planning. The family head and the owner of the firm also make plans which bind the use other people can make of their private knowledge, yet families and firms are not known to share the problems of socialism. For Mises, this observation poses no difficulty: under socialism private property is *absent*, whereas individual families and private firms are *based* on the very *institution* of private property. But for Hayek the smooth operation of families and firms is puzzling, because his idea of a fully decentralized society is one in which each person makes his own decisions based on his own unique knowledge of the circumstances, unconstrained by any central plan or supraindividual (social) norm (such as the institution of private property).

Second, if the *desideratum* is merely the decentralized use of knowledge in society, then it is difficult to explain why the problems of socialism are fundamentally different from those encountered by any other form of social organization. *Every* human organization, composed as it is of distinct individuals, constantly and unavoidably makes use of decentralized knowledge. In socialism, decentralized knowledge is utilized no less than in private firms or households. As in a firm, a central plan exists under socialism; and within the constraints of this plan, the socialist workers and the firm's employees utilize their own decentralized knowledge of circumstances of time and place to implement and execute the plan. For Mises, all of this is completely beside the point. But within Hayek's analytical framework, no difference between socialism and a private corporation exists. Hence, there can also be no more wrong with the former than with the latter.

Clearly, Hayek's thesis regarding the central problem of socialism is nonsensical. What categorically distinguishes socialism from firms and families is *not* the existence of centralized knowledge or the lack of the use of decentralized knowledge, but rather the absence of private property, and hence, of prices. In

fact, in occasional references to Mises and his original calculation argument, Hayek at times appears to realize this, too. But his attempt to integrate his very own thesis with Mises's and thereby provide a new and higher theoretical synthesis fails.

The Hayekian synthesis consists of the following propositional conjunction: "Fundamentally, in a system in which the knowledge of the relevant facts is dispersed among many people, prices can act to coordinate the separate actions of different people" and "the price system" can serve as "a mechanism for communicating information."² While the second part of this proposition strikes one as vaguely Misesian, it is anything but clear how it is logically related to the first, except through Hayek's elusive association of "prices" with "information" and "knowledge." However, this association is more of a semantic trick than rigorous argumentation. On the one hand, it is harmless to speak of prices as conveying information. They inform about past exchange ratios. But it is a non-sequitur to conclude that socialism's central problem is a lack of *knowledge*. This would only follow if prices actually *were* information. However, this is not the case. Prices convey knowledge, but they *are* the exchange ratios of various goods, which result from the voluntary interactions of distinct individuals *based on the institution of private property*. Without the institution of private property, the information conveyed by prices simply does not exist. Private property is the necessary condition—*die Bedingung der Möglichkeit*—of the knowledge communicated through prices. But then it is correct only to conclude, as Mises does, that it is the absence of the institution of private property which constitutes socialism's problem. To claim that the problem is a lack of knowledge, as Hayek does, is to confuse cause and effect, or premise and consequence.

On the other hand, Hayek's identification of "prices" and "knowledge" involves a deceptive equivocation. Not only does Hayek fail to distinguish between what one might call institutional knowledge—information that requires for its existence an institution (such as the knowledge of prices requires private property)—and *raw or extra-institutional knowledge*—like this is an oak tree, I like peanuts, or birds can fly. Moreover, Hayek also fails to notice that the knowledge of prices is not at all the same sort of knowledge whose existence he believes to be responsible for the "practical impossibility" of socialism and central

²Ibid., pp. 85–86.

planning. What makes central planning impossible, according to Hayek, is the fact that part of human knowledge exists only as essentially *private* information:

practically every individual has some advantage over all others because he possesses unique information of which beneficial use might be made, but of which use can be made only if the decisions depending on it are left to him or are made with his active cooperation.³

While it is certainly true that such knowledge exists, and while it is also true that uniquely private knowledge can of course never be centralized (without information losses), it is just as certainly *not* true that the knowledge of *prices* falls into this category of uniquely *private* information. To be sure, prices are "prices paid at specific times and places," but this does not make them private information in the Hayekian sense. To the contrary, the information conveyed by *prices* is *public* information, because prices—*qua* objective exchange ratios—are *real* events. It may be *difficult* to know all of the prices paid at a specified date and location, just as it may be difficult to know every person's physical location at any given time. Yet it is hardly *impossible* to know either one, and with current computer technology it is probably easy. In any case, while I may never know everything that you know, and *vice versa*, it is no more problematic to assume that both of us can simultaneously possess the same *price* information than that we can both simultaneously know the same baseball results. Hence, the knowledge conveyed by *prices* actually *can be centralized*. But if price information is public information and thus can be centralized, then, according to Hayek's thesis that socialism's problem stems from the inefficiency of trying to centralize genuinely uncentralizable private knowledge, it would follow that the absence of prices, and hence of private property, has *nothing to do* with the plight of socialism. Otherwise, if one insists with Mises that the absence of private property and prices *does* have something to do with the plight of socialism. Hayek's contribution to the socialism debate must be thrown out as false, confusing, and irrelevant.

Hayek's misconception of the nature of socialism is symptomatic of a fundamental flaw in his thinking, pervading not only

³Ibid., p. 80.

his economics but in particular also his political philosophy: his ultra-subjectivism. Hayek, as noted and quoted *ad nauseam* by his numerous followers, was convinced that "it is probably no exaggeration to say that every important advance in economic theory during the last hundred years was a further step in the consistent application of subjectivism."⁴ While this may well be true, it does not logically follow that every further advance toward subjectivism must also lead to an advance in economic theory. However, Hayek seems to have drawn this conclusion and has thus become a prime example illustrating its falsehood.

Mises, and in his steps even more clearly Murray N. Rothbard, conceives of economics as the science of human *action*. Action has two inseparable aspects: a subjective aspect (action is rational, intelligible action) and an objective aspect (acting is always acting with real things and physical stuff). Accordingly, Mises's and Rothbard's economics and political philosophy is never anything but robust, and their categories and theories invariably possess real, operational meaning: private property, division of labor based on private property, production, direct and indirect exchange, and also compulsory interference with private property and production and exchange such as taxation, counterfeiting, legislation, and regulation.

In distinct contrast, Hayek—and misled by him to different degrees also Israel Kirzner and Ludwig Lachmann—views economics as some sort of science of human *knowledge*. Accordingly, Hayek's categories and theories refer to purely subjective phenomena and are invariably elusive or even illusory. He is not concerned about acting with things, but about knowledge and ignorance, the division, dispersion, and diffusion of knowledge, alertness, discovery, learning, and the coordination and divergence of plans and expectations. The external—physical—world and real—material—events have almost completely disappeared from his view. Hayek's categories refer to *mental* states of affairs and relationships, completely detached from and compatible with any real physical state of affairs and events.

Most notable and disturbing is the ultra-subjectivist turn in Hayek's political philosophy. According to a long-standing tradition of political philosophy shared by Mises and Rothbard, freedom is defined as the freedom to privately own—and control—real property, and coercion is the initiation of physical

⁴*The Counterrevolution of Science* (New York: Free Press, 1955), p. 31.

damage—harm—upon the private property of others. In distinct contrast, Hayek defines freedom as “a state in which each can use his own *knowledge* and for his own *purposes*,”⁵ and coercion means “such control of the environment or circumstances of a person by another that, in order to avoid greater evil, he is forced to act not according to a coherent *plan* of his own but to serve the *ends* of another,”⁶ or alternatively, “coercion occurs when one man’s actions are made to serve another man’s will, not for his own but for the other’s *purpose*”⁷ (all emphases are mine). Clearly, Hayek’s definition contains nothing regarding scarce goods and real tangible property, and he provides no *physical* criterion or indicator whatsoever for the existence or non-existence of either state of affairs. Rather, coercion and freedom refer to specific configurations of subjective wills, plans, thoughts, or expectations. As *mental* predicates, Hayek’s definitions of freedom and coercion are compatible with every *real*, physical state of affairs. They possess no power to make any real distinctions.⁸

It is beyond the scope of this note to offer a detailed critique and refutation of Hayek’s ultra-subjectivism. However, beside the fundamental question whether a science of knowledge as envisioned by Hayek is even possible, i.e., whether there can be any other science of knowledge apart from logic and epistemology on the one hand and the history of ideas on the other,⁹ two conclusions are painfully clear. Even if Hayek’s science of knowledge is possible, it appears at best irrelevant because it is praxeologically—operationally—meaningless. At worst it is intellectually pernicious in promoting relativism.

As for the real world of acting with physical property, of production and exchange, of money and markets, profits and losses, capital accumulation and bankruptcies, there can be no lasting doubt about the existence of *laws* and the ceaseless operation of a *tendency* toward general equilibrium—action-coordination. Likewise, there can be no doubt about the existence of laws and the constant operation of dis-equilibrating tendencies within

⁵*Law, Legislation, and Liberty*, Vol. 1 (Chicago: University of Chicago Press, 1973), pp. 55–56.

⁶*Constitution of Liberty* (Chicago: University of Chicago Press, 1960), pp. 20–21.

⁷*Ibid.*, p. 133.

⁸See also Hans-Hermann Hoppe, “Hayek on Government and Social Evolution,” *Review of Austrian Economics* 7, no. 1 (1994): esp. 70f.

⁹For some serious doubts on this see Hans-Hermann Hoppe, *Kritik der kausalwissenschaftlichen Sozialforschung* (Opladen: Westdeutscher Verlag, 1983).

the world of actual taxation, counterfeiting, legislation, and regulation. Indeed, it would be extremely costly—prohibitive—to not recognize such laws and tendencies and to adopt relativistic views. In contrast, in surreptitiously shifting attention from the tangible world of action and property to the ethereal world of knowledge, ideas, plans and expectations, relativistic views become attractive (and cheap). There are no apparent regularities and tendencies in Hayek's knowledge world. In fact, it is difficult to even imagine what "law" and "equilibrium" could possibly mean in the context of purely subjective phenomena. Instead there exists seemingly nothing but constant kaleidoscopic change.

It is hardly surprising, then, that Hayek and his followers could proclaim such relativistic slogans as that we cannot do anything to improve our condition except rely on spontaneous evolution, that our future is completely unknowable, or that we cannot but participate in an endless and open-ended stream of conversation. As far as the realm of purely subjective phenomena is concerned, and as addressed to a purely spiritual—disembodied—being, this may well be good advice. Actually possessing physical—bodily—existence, however, why would anyone even care to know it? As applied to the world of bodily action and property, such advice is self-destructive nonsense.